Housing Downtown

Beacon Hill • Back Bay • Chinatown • Fort Point Channel • North End • West End
South Cove • South End • Waterfront

H O U S I N G   I N   D O W N T O W N   B O S T O N

A Report prepared under contract between the Boston Redevelopment Authority and Citizens Housing and Planning Association, Inc.

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Table of Contents

I. Introduction

Boston's job base expanded rapidly over the past decade with more than 8,500 new workers added each year. Nearly half these new jobs were located in downtown Boston. This growth in jobs, accompanied by increased commuting time for those working downtown, has contributed to the rapid escalation of housing sale and rental prices and frequently the displacement of those unable to pay the increases.

While there has been some growth in the downtown housing supply through conversion, recovery of vacant buildings and new construction, housing production has not kept pace with demand. To some degree, the City through its regulatory procedures and financial incentives can influence how much housing gets built, where it gets built and for whom. This paper, prepared for Citizens Housing and Planning Association through a contract funded by the Boston Redevelopment Authority, examines what has been happening in the downtown housing market place, raises some of the policy questions involved, and outlines ways in which housing production can be influenced by local government actions.

The definition of downtown used in the study is a loose one. It includes, in addition to predominantly business areas, the adjacent walk to work neighborhoods of the Back Bay, Chinatown, South Cove, the South End (as far as Massachusetts Avenue), Fort Point Channel, the North End, the West End, and Beacon Hill. Within this perimeter is a resident population that increased from about 65,000 in 1970 to over 74,000 in 1980 and has continued to expand since then.

Past and current administrations have been generally favorable to downtown residential growth as a means, to quote BRA Administrator Stephen Coyle, "... to create the livable

downtown, the 24-hour city ... it eases your traffic problem because you've got more people walking to work. And it's a saftey valve for the neighborhoods because it provides somewhere else for the gentry to land"[1]. The Boston Chamber of Commerce and the Boston 2000 Committee though its Housing Task Force spent considerable time during the early 1980's looking at ways to encourage downtown housing. The Chamber issued a number of publications strongly endorsing additional housing in central areas and recently BRA planners have begun to consider a more comprehensive approach to downtown land use issues, including housing. However, as discussed in the report, the amount, location and price of housing that has been built in the recent past has been determined largely by market forces and the availability of specific financing programs.

While the recent rise in vacancy rates of office space may begin to divert some developers attention toward housing construction downtown, high costs and other factors are likely to remain as substantial constraints on increasing the supply - particularly of low and moderately priced units. However, city policies and incentives that favor housing development could, in combination make a difference in the number, location and price range of units that are built. The report suggests a number of ways to encourage the production of housing. In summary, these include:

1. Simplification and improved coordination of the City's regulatory and approval process to reduce uncertainty and delay - factors which increase the risks and costs of building in Boston.

2. Amendment of the Zoning Ordinance within the downtown area to permit by right higher densities for housing, or mixed-use development that includes housing, than for office and other business uses.

3. Revision of the 121A legislation to allow lower tax rates for new housing construction.

4. Continue the Administration's policy of no rent control for apartments built since 1971, with specific written agreements, if appropriate, regarding both rent control and condominium conversion procedures.

5. Secure passage of legislation that has been filed to amend Chapter 121B so that the BRA can use tax increment financing to help finance housing.

Further suggestions for encouraging the construction of more housing downtown and, in addition, housing that will serve a broader income market include;

1. Use of development agreements that reduce or defer payments for publicly held land.

2. Reduction of financing costs through use of on-site linkage funds for mixed-use development or through use of funds from other sources.

3. Use of City capital funds for site preparation and improvements for new housing development.

4. Secure passage of legislation that has been filed to amend Chapter 121B to permit the BRA to issue tax exempt Public Facilities Revenue Bonds for the development of housing and legislation that has been filed authorizing construction of housing on air rights over the Turnpike.

II. Downtown Population Growth & Change

The rapid changes taking place in the City's downtown neighborhoods are frequently in the news and a source of stress to many, as students, elderly, artists, rooming house lodgers and low income families give way to more affluent households. The extent of change can be readily seen by comparing 1970 and 1980 Census data. During this decade, when the city as a whole had a net loss in population of over 78,000, downtown residential areas (including the South End, the areas North of Massachusetts Avenue and the North End) increased in population by more than 9,000 persons.

Most of the downtown gain occurred where there had been a high degree of public intervention in the 50's and 60's, i.e., the West End, the South End, Chinatown and the Waterfront. There was almost no change in total population in the already built up and occupied neighborhoods of Beacon Hill and Back Bay.

However, there was a rapid change in the demographics of all downtown neighborhoods including Back Bay and Beacon Hill with an influx of young adults in the 25-34 year-old age range and a decrease in both the number of children and elderly.[2] From all indications the trends of the 70's are continuing and may have accelerated. It also seems reasonable to assume that the number of elderly and children living in the downtown area would have declined to an even greater extent had it not been for the extensive construction of subsidized housing during the 70's. Further reductions in the number of children and elderly are likely given the rapid increase in housing costs and the drying up of subsidy programs.

The drop in number of children has been most rapid in the North End/Waterfront area. There were only a little more than half the number of children 19 and under living in these

areas in 1980 as there had been in 1970. The one exception to the overall pattern downtown is Chinatown. Here, construction of subsidized units during the 70's made possible the growth in the size of the community in all age groups.

Population by Area[3]

	1970	1980	Net Change	% Change
Back Bay	18,117	18,336	+ 219	+ 1%
Beacon Hill	9,271	9,130	- 141	- 1%
West End	4,336	5,764	+1,428	+25%
North End/Waterfront	9,898	10,859	+ 961	+ 9%
South End	20,845	24,743	+3,898	+16%
Chinatown	1,570	3,552	+1,982	+56%
Central Business Area	1,209	1,998	+ 789	+37%
	65,246	74,382	+9,136	+12%

Source: 1970 and 1980 Censuses of Population

Changes in Age Distribution

Age Group	1970	1980	Net Change
Children (0-19 years)	13,553	10,648	-2,905
Young Adults (24-35 years)	12,008	21,805	+9,800
Elderly (over 65 years)	9,570	8,745	- 825

Source: 1970 and 1980 Census of Population

III. Current Housing Market Activity

A number of factors affect the supply of additional housing downtown.

1. The dwindling availability of federal subsidies has stopped nearly all new construction or major renovation of housing for below-market rate occupancy for sale or rent.

2. Financing, market and tax considerations have favored upper income, condominium units rather than rental housing.

3. The high cost of sites and, in the central business areas, competition with the rapidly expanding office market is currently restricting most construction and conversion of buildings for residential use to high amenity sites such as the Waterfront, areas adjacent to the Common and Public Garden, or to established residential areas. There is little development occuring in locations that might be considered to have potential for increased residential use such as the Bulfinch Triangle, the Leather District or, to any great extent, the Boston Wharf properties in the Fort Point Channel area. In fact there is probably a decrease in residential occupancy in some of these locations.

4. Downtown residential development consists almost entirely of one and two bedroom units. There are almost no unsubsidized larger units; nor do the newer buildings on the market have more than a scattering of children living in them.

5. There has yet to be any new unsubsidized residential construction in the South End even though sites are available. Renovation of existing buildings encouraged by investment tax credits and accelerated depreciation has obviously been more profitable.

Projects in Construction and Planning

The BRA's current pipeline list of projects includes 776 units under construction downtown (including the North End and South End). Of these 262 are for below-market rate

occupancy. Publicly announced projects in advanced planning include a total of 2,290 units of which 128 are for below-market ocupancy.

Downtown Units Under Construction or in Planning

Under Construction	Developer	Total Units	Below-Market Units
Lincoln Wharf	San Marco Hsq.Corp	192	48
Rowes Wharf	Beacon Co.	125	
Mariner		104	
St. Cloud	BCA & Art Plaza Assoc.	23	9
MacDonald Warehouse	Old Boston Restoration	26	5
Prince School	Abbey/Finch	36	
Tent City	Tent City Corp.	270	200
Total		776	262

Projects in Planning	Developer	Total Units	Below-Market
Arlington-Hadassach	Druker Co.	90	
Prudential Center	Pru. Realty Group	600	
Braemore	Zena Nimitz	96	
30 Garrison	Brown, Shandry, Britt	88	
Parcel A-1	UIDC	180	
Tremont/Jefferson R-7	CCBA	20	20
Fan Pier	Carpenter & Co.	525	*
Pier 4	Boston Mariner Co.	500	*
1777-1789 Washington	Simoneti Trust	20	6
390-408 Mass. Ave.	TDC	48	32
Parcel 16	Concord Baptist	117	60
Clarendon Baptist	Renaissance Properties	24	10
35-37 West Newton	Boston Aging Concerns	30	30
Total		2290	128

*10% of total but these units may be off site

Source: BRA Pipeline List

Assuming a five year build out of the units now in construction or in advanced planning with a designated developer, a total of 3066 units will be added to the downtown housing stock at an average rate of 613 units per year.

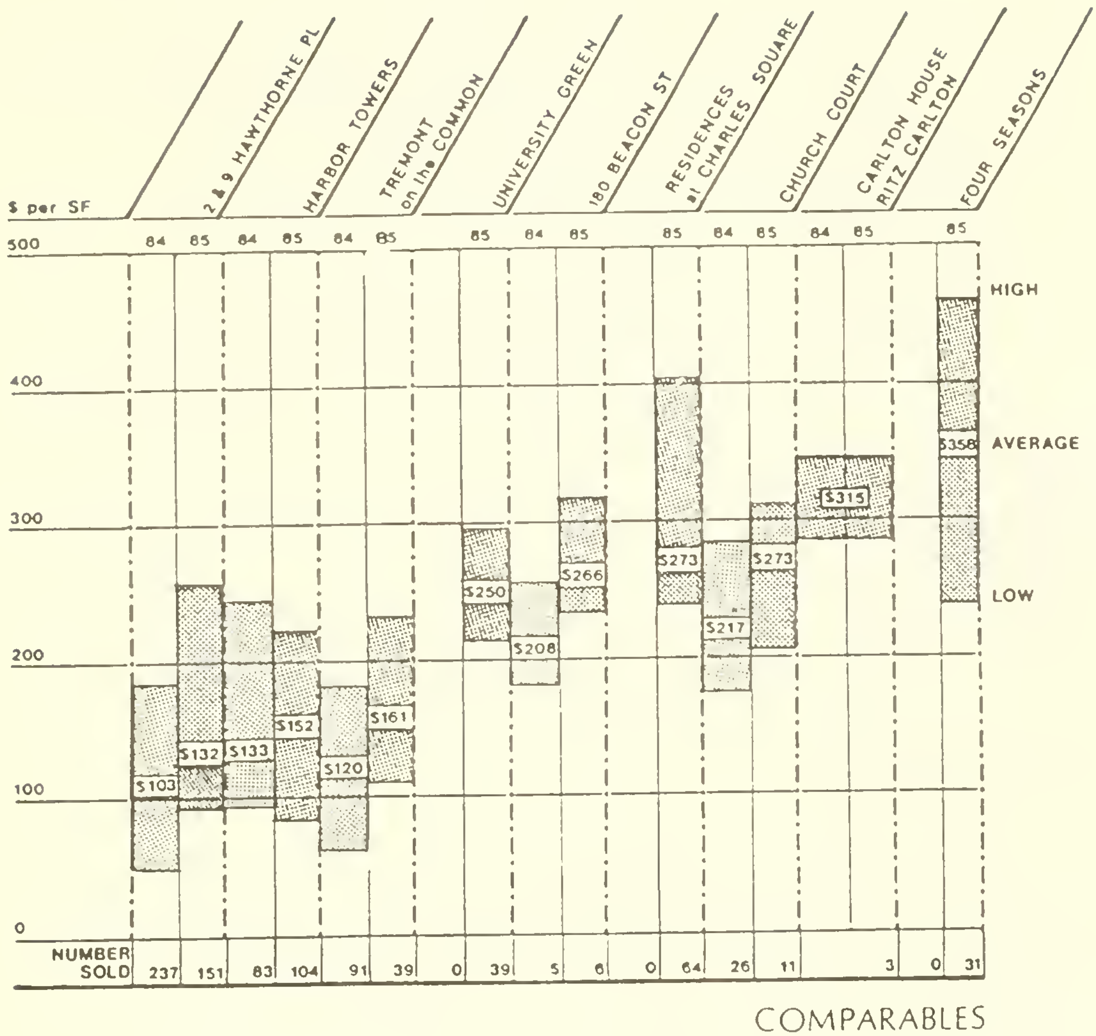
The Condominium Market

As shown by the chart of comparables (Figure 1), the average sale price of some of the recently constructed larger developments is running from $250.00 to over $400.00 per square foot. Older buildings such as Harbor Towers and Tremont on the Commons are selling for considerably less -- more in the range of $150.00 per square foot.

An example of a current condominium offering now under construction is the 105 unit Mariner located on Commerical Street. A lower priced one-bedroom unit of 881 square feet (on a lower floor away from the Waterfront) is selling for $204,000 ($232.00 per foot). Deeded indoor parking is available at $30,000 per space. Monthly payments (not including parking) with a 20% down payment plus condominium fees and taxes come to an estimated $2059.00 per month. The household income needed to cover this payment would be about $71,000. (This assumes monthly housing cost less utilities at 35% of gross income exclusive of income tax deductions).

Charges	Monthly
Mortgage payments @ 12% 30-year fixed rate	1,470.00
Condominium Fees	309.00
Real Estate Taxes	280.00
	$2,059.00

FIGURE 1



Source: Information provided by Hall Davison & Company, Cambridge Massachusetts

A survey of the Boston Globe listings in October of 1985 showed for those ads listing both square footage and asking price, that the median was approximately $210.00 per square foot. The median asking price by unit size was $195,000 for 1-bedroom units, $300,000 for 2-bedroom units and $550,000 for 3-bedroom units.

Asking Price Per Sq. Foot for Downtown Condominiums

	Number of Units
$175/Square Foot or Less	8
$176-225/Square Foot	16
$225-275/Square Foot	9
$276 +	3
Median asking price/Square Foot	$210

Source: Boston Globe Real Estate Section 10/31/85 for condominiums located in Back Bay, Beacon Hill, South End.

Rental Housing

Rental construction downtown in recent years has been limited. The Devonshire on Washington Street and the Greenhouse on Huntington Avenue are exceptions. In both cases they were financed with 7 1/2% 40-year FHA insured mortages (earlier buildings including Harbor Towers and Charles River Park also had FHA is insured mortgages). Comparable financing is not currently available.

A review of the Devonshire experience is of interest. As a top of the market building, it illustrates the potential for rents in comparison to other uses. The building includes 475 apartments with 20% with of the building's square footage as office and retail uses. It has a 121A tax agreement. A zoning variance was obtained to increase the FAR above the allowable limit. There is a 25% turnover each year, a figure considered the norm for unsubsidized units or those not under rent control.

Rents are shown below and vary from $13.35 per square foot to over $29.00 depending principally on how high up in the building the unit is. Rents are adjusted regularly depending upon market conditions.

	Monthly Rent	Average Square Footage	Rent in $ Per Square Foot
1 BR	$ 890 - 1200	800	13.35 - 18.00
2 BR	$ 1300 - 1900	1,000	15.60 - 22.80
Penthouse	$ 2900 - 4500	12 - 1,400	29.00 +

These rents, on a square foot basis, are on the order of half what comparable office space would bring in this location. The project would not have been built without the favorable financing terms, a 20% commerical office space component included in the total financing package, a 121A tax agreement and the higher density obtained by variance.

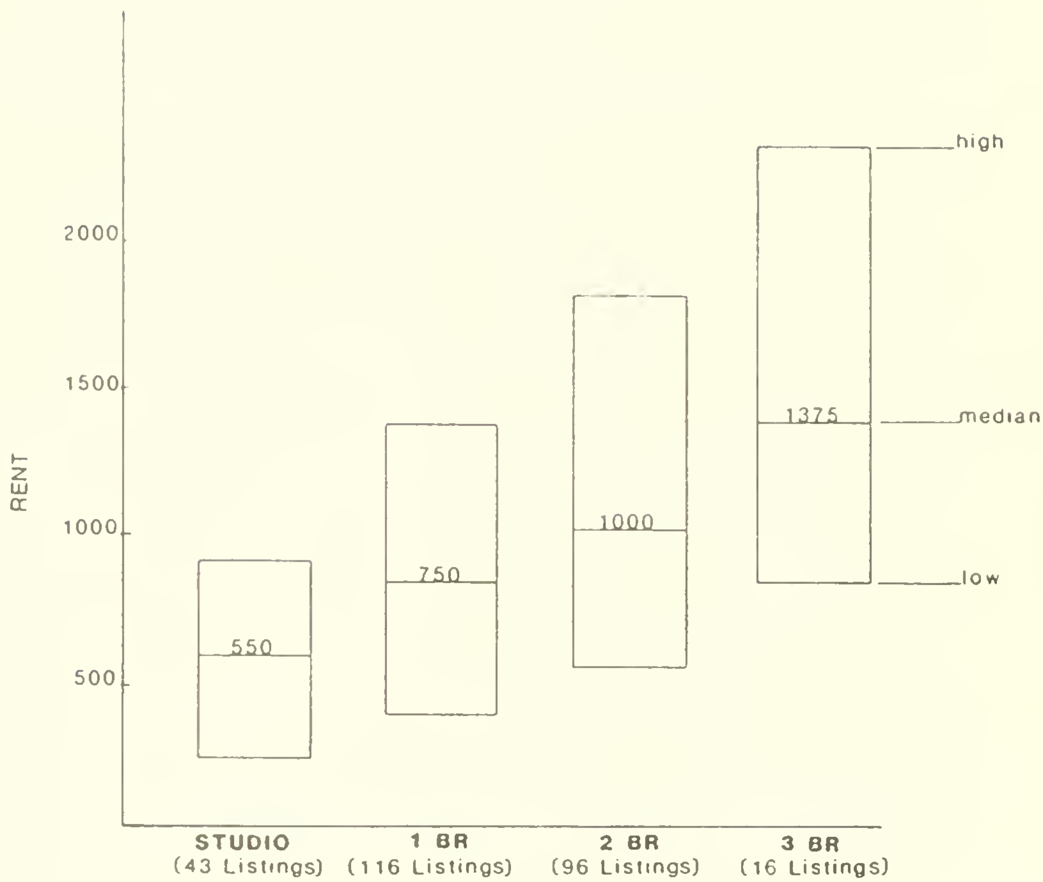
Unsubsidized rents have increased rapidly in recent years. A review of apartments advertized in the 11/10/85 Sunday Globe shows a median monthly rental for a one-bedroom apartment of $750, with a two-bedroom median of $1,000. (Many listings do not include utilities). The range and prices by unit size are shown in Figure 2.

Household income required to live in a median priced apartment (based on 30% of income) is as follows:

	Monthly Median Rent	Income Required
Studio	550	$22,000
1 BR	750	$30,000
2 BR	1,000	$40,000
3 BR	1,375	$55,000

Figure 2

Monthly Rents



Source: Individual listings advertised in the Boston Globe 11/10/85 for Beacon Hill, Back Bay, South End. Some Rents include utilities

IV. The Increase in Jobs Downtown

The tight housing market is, in large part, a side effect of the rapid growth in jobs both citywide and downtown. Over the nine year period from 1976 to 1984, there was an average annual increase of over 8,500 jobs citywide. Slightly more than half of these were located in the downtown area.[4] Major expansion both citywide and downtown has been in retailing, finance, services (particularly medicare and education) and in government. At the same time the number of jobs in manufacturing and wholesaling has declined.

Since the downtown figure does not include adjacent employment areas such as the Fenway or South Boston or expansion at Logan or in Cambridge, the job expansion impact, in terms of both downtown housing demand and congestion, is actually far greater.

BRA projections indicate further job growth through 1995 at a somewhat slower rate. (This is contradicted in an earlier report on the Downtown Crossing Plan published in 1983 which projects a growth of 20,000 jobs in Downtown/Back Bay between 1985-1990).

There is now nearly one job in Boston for every resident. Downtown, there are more than 3 1/2 jobs for every resident and the gap is growing. While population downtown increased at an average of 915 persons per year (between 1970 and 1980) jobs were increasing at a rate of 4,500 per year (between 1976 and 1984). Clearly the potential demand for housing is virtually bottomless, the constraints being availability, price, and issues of environmental quality.

Job Growth Downtown and Citywide for 1976, 1984 and Projections for 1995

	Downtown	Citywide
Total Jobs 1976	242,885	500,676
Total Jobs 1984	283,398	577,547
Increase 1976-84	40,870	76,871
Average Increase Per Year	4,540	8,540

Change in Number of Jobs 1976-1984 Downtown and Citywide, and Projected Change Citywide 1984-1995

By Job Category	Downtown 1976-1984	Citywide 1976-1984	Projected Citywide 1984-1995
Manufacturing	-2,544	-5,597	7,462
Transportation/ Public U.	2,603	6,727	-258
Wholesale Trade	-702	-2,212	74
Retail Trade	3,075	7,590	51
Finance/Ins./RE	12,062	15,465	12,482
Services	20,647	43,966	33,264
Government	4,577	8,320	231
Other	1,154	2,613	352
Total	40,870	76,871	53,927

Source: Derived from BRA report. See footnote 4.

V. Housing Policies and Programs

The construction of additional housing downtown, as long as it doesn't displace anyone is not a controversial issue. Who can be against it? It adds life to the City, helps to keep the streets safe, and supports retail and service activities. It allows more people to live within walking distance to their work or places of entertainment, thereby reducing the load on the transportation system. Furthermore, housing downtown in effect makes fuller use of the area during "off-peak" hours. It may also take some of the gentrification pressure off adjacent neighborhoods -- though this is likely to be limited given the extent of demand in relation to the number of units built.

The Greater Boston Chamber of Commerce, in its publication "Center City: Goals and Guides for Revitalization" published in 1982, stated its support for housing opportunities of all types (condominium, market-level rental and subsidized units) and the need to maintain the integrity and character of existing residential neighborhoods. BRA planning studies prepared during the White Administration such as the "Downtown Crossing Plan" include housing as part of new mixed-use development. The North Station urban renewal plan projected 1,100 units of housing. (These latter two do not define the income mix to be served). The current BRA administration has also consistantly emphasized the need for additional housing downtown and has, for example, strongly encouraged Prudential to give priority attention to housing as a big element of its expansion program.

BRA Guidelines

The draft "Downtown Guidelines, Growth Policies for Central Boston 1985-1995" calls for an additional 5,000 units of housing downtown (not including the South End, North End or Waterfront Areas) between 1985-95. Ten percent of the units would be required for moderate income households (80% of median) where public land is involved, 20% where public funds are involved, and a replacement program for any housing lost as part of a new development. (As the 20% would be required by federal law in any case for TELLER or other 80-20 programs involving tax exempt bonds, a downtown guideline requirement does not add to what is already in place). The Harbor Park Plan proposes a 30% low and moderate income target, but it is not site specific. (Columbia Point is presently programmed to be 28% Low/Moderate.) On site low or moderate income requirements, if any, for the Fan Piers and adjacent areas have not yet been established.

While these policies for additional housing, including a component of low or moderate income units have not been fully worked out, and while implementation in some instances will be difficult, the City's intent is clear - a desire to see more housing built and for a range of household incomes. The Downtown Guidelines growth target of 5,000 units over 10 years (500 per year) is a realistic one in consideration of those projects already in the pipeline. Unless there are extended delays, projects under construction or in planning should result in more than 500 units per year, at least for the next 4-5 years.

Zoning

The BRA plans to revise the zoning for downtown, and staff work is now underway. The present ordinance does little to favor or protect existing housing outside of established residential areas and does not reflect current development patterns. For example, much of the Waterfront is zoned for manufacturing. Chinatown and areas fronting the Common are zoned entirely for business. While this may have had little effect on housing development one way or the other, the present zoning districts do not reflect either current market forces or stated public intentions.

The Market as Planner

Although the situation is begining to change, it is clear that a strong planning or policy framework for downtown housing development has been lacking. The market, in competition with other uses and in response to available financing programs, has been the principal determinant of what gets built and where. Given the City's many priorities, this may not have been a mistake, but the overwhelming result has been and will continue to be construction of units for an

adult upper-income market built in locations that have some special amenity or are located in established residential areas. (The few highly visable and special cases such as tent city are an exception.) The market has also dictated a substantial loss in the number of units and lodging house rooms available to low and moderate income households.

If an increased and substained rate of construction is sought in more locations and for a broader income mix of households, then a downtown plan that gives attention to housing, a revised zoning ordinance and incentives will be needed. Many people interviewed in the course of this study thought these were reasonable goals to accomplish within the framework of the City's overall needs and resources. One qualification, however, was that expansion of the downtown housing supply to meet the needs of families with children would be difficult. High housing costs make downtown living increasingly out of reach for all but well to do families with children or those living in subsidized units.

Two interrelated questions need to be addressed:

1. How to increase the production of housing downtown, and

2. How to include below-market rate units as a part of this production.

Increasing Housing Production

Boston, like other cities, is confronted with a situation in which the office market expands in response to demand, thereby maintaining a reasonable vacancy rate. Large amounts of office space continue to be built even with linkage payments and other exactions. Housing production, on the other hand, has not been so responsive. If it is to expand at a faster rate or serve more than a limited high income market, it will need government encouragement and incentives.

Housing downtown is expensive. Land costs are high and land is difficult to assemble. The costs of high density development on constrained sites are high. Housing must compete in many central locations with an expanding office market. The approval process, relative to other locations, is slow and unpredictable and requires long-term staying power. It is not always clear what exactions will be required. Developers of rental housing downtown, as elsewhere, have to consider the potential resistance of later conversion to individual ownership. These factors, in combination, reduce the extent of housing development downtown.

There is not likely to be any single means by which the feasibility and production of housing downtown is increased. It is reasonable to believe, however, that a combination of efforts and incentives would make a significant difference.

1. Reducing Uncertainty

Housing production could be increased by finding ways to reduce uncertainty and delay when dealing with the City's regulatory apparatus. There is virtually no building that can be done under the zoning code as a matter a right. Negotiations and a series of approvals are required from separate administrative structures...typically the BRA, the Zoning Board of Appeals, the Building Department, the Fire Department, the Water and Sewer Commission...agencies which by the nature of their responsibility, can slow down anything that happens. Developers, including both large well financed firms as well as small profit and non-profit organizations encounter a lack of coordination among city departments and a back log of work that may result in months of delay in moving a project toward a construction start. While there are many opportunties for delay, there are few

incentives to accelerate processing or provide coordination between departments and agencies. The complex approval process increases costs and can severely impede production.

Consolidation of all development and regulatory functions in one agency does not appear to be feasible or desireable. However, housing production downtown (as well as City wide) would be strengthened if the City's regulatory efforts were balanced with administrative effort, that focused on the delivery of housing. Coordinated, streamlined, responsive processing is a direct way in which the City can increase the speed of housing construction and lower costs.

While it beyond the scope of this study, there should be opportunities within the existing regulatory structure to simplify and streamline some of the approval steps. It may, for example, be possible to shift some approvals now requiring action by one or more boards to an administrative procedure or eliminate or combine some steps. It may be possible to use existing staff more effectively, or, if appropriate it may be necessary to add additional employees. A review should be made of the development/building process which solicits input from the development community and investigates the experience of other cities.

2. An Amended Zoning Ordinance

The present ordinance includes a number of downtown areas zoned for business, manufacturing and industry which are now considered either more appropriate for housing or for the inclusion of housing along with other uses. Examples include: areas of the waterfront, sites along the Common and Public Garden, parts of Chinatown and the Back Bay. An

updated ordinance, within the framework of a downtown plan, would more accurately reflect current intentions and City priorities.

The widespread granting of variances to permit more intensive development of a site for office use [or accomplishing the same thing through use of the Planned Development Area (PDA) mechanism] has undoubtedly resulted in higher land prices in areas zoned for business and has reduced the potential attractiveness of these locations for housing. Housing would be a more competitive use if, under an updated zoning ordinance, there were strong limits on approvals for higher FAR's for office use while, at the same time, allowing the inclusion of housing at higher densities. This approach -- to permit higher density if residential development were included --- is more akin to mixed-use zoning than to a density bonus concept. Higher FAR's for residential use would not have the same impact as would those for increased office space, because housing makes relatively low demands on the transportation system, utility networks and services. These demands occur at different "off peak" hours from office space.

To give an example, a downtown zone might be structured with an FAR of 8 for business and office use, but permit a density of 12 if the added density were housing.

3. Lower Real Estate Taxes on New Residential Construction

Chapter 121A was developed to lower real estate taxes on new contruction and, perhaps of equal importance, to provide the basis for establishing a predictable expense over an extended period of time. Its passage in the early 60's was a critical ingredient in unlocking construction in Boston. Proposition 2 1/2 has in effect replaced 121A and, to all in-

tents, made it inoperative. However, while 2 1/2 limits taxes and makes them predictable, it has also eliminated any relative advantage new construction once had over existing property. Property taxes on new construction, even under proposition 2 1/2 can account for over one third of total operating expenses. (see illustrative pro forma)

The passage of legislation which revised the 121A formula for new residential construction and allowed a period of reduced tax payments would be an incentive for housing investment. Initial payments could be based, for example, on a site's predevelopment assessment and be increased gradually over 10 years to the full rate.

4. Rent Control and Conversions

The current administration is on record as not favoring the imposition of rent controls on any apartment constructed after 1971. However, in order to encourage developers and reassure lenders, it may be worth exploring whether or not some more formal agreement with the City would be appropriate to protect a new rental property against future rent control legislation or restrictions on condominium conversion after a given period of time. This could be helpful for larger sites where a developer might perfer an initial mixture of sales and rental units. An all-condominium sales program ends up competing against itself as condominiums (bought either by resident owners or investors) came back on the market for resale. A mix of condominium and rental construction would broaden the market, allow more rapid construction and a longer period for owner occupant absorption.

5. Tax Increment Financing

With the decline in federal support for local affordable housing programs, communities are looking for other means, including tax increment financing (TIF), as a way to pay for

some of the costs of development. Typically bonds are issued which are backed by the taxes generated from the new development. Cities in California and Minnesota have been particularly active in using this type of financing. Public front end costs that could be financed by TIF include land aquisition, the cost of relocating residents and businesses, building demolition, improvements such as streets, utility lines and sidewalks that serve the development, and planning and engineering costs. Before Boston can use TIF, passage of legislation that has been filed amending Chapter 121B is needed.

Below-Market Rate Housing

The term below-market rate as used here includes all units sold or rented below the rate that a developer or owner could get on the open market. Because of the high cost of housing downtown, a below-market unit may still require an income as much as 115-130% of median. It thus includes units for households with 80% or less of the areas median income as well as units for households with 80% or above the median income to the level required to pay market rates.

Arguments in support of inclusionary policies that require a broader mix of household incomes than would otherwise be provided by the market rest on: 1) the critical need for such housing; 2) the desire to reduce ongoing displacement of low and middle income individual families and elderly from all of the downtown neighborhoods; and, 3) for some, the belief that retaining economic diversity in these neighborhoods is a democratic principal worth striving for. In this view some of the low and moderate income people working downtown ought to be able to live there.

While no one is likely to argue against the need, there are some who feel that the overall supply question -- the

production of more units without the complexity of inclusionary policies -- is what needs emphasis. This position argues that building units downtown is considerably more expensive than building in outlying lower density neighborhoods, and that a given number of dollars will build fewer units downtown and could be used more effectively elsewhere.

Whatever position is taken on the question of whether to provide below-market units downtown, it is generally understood that community interest and pressure will require housing built in some downtown neighborhoods -- such as the South End and Chinatown -- to have a substantial below-market rate component, even if it is more expensive to do so in these neighborhoods than elsewhere. The question is less clear in areas that do not have (or as in the case of the West End, have lost) any neighborhood constituency for the inclusion of below-market units. The 10% moderate income requirement (i.e., 80% of median) presently being considered as a Downtown Guideline for sites under city control -- and with no requirements for other sites -- is not, however, very inclusive.

First, there is a need for sales and rental housing for households in the income range between 80% of median and what the market can produce. Eighty percent of median for a two person household is currently $21,750. This translates to a rent of $545.00 per month -- a gap of about $200 from the median rents of available apartments downtown which require an income of about 115% of median. Inclusionary policies could reasonably consider meeting the housing needs of households in the income range above 80% of median. MHFA accomplishes this in their single family homeownership program. For example, it recently made available mortage funds that gave initial preference for home purchases to a two-person family with a median income of 110%. A second round allocated the remaining funds for families with incomes of up to $37,000 (136% of median for a two person household).

Second, downtown sites are limited and will largely disappear in the next few years as surplus city property and parcels acquired through the urban renewal program are used up. Provision of below-market housing using city land as a trade off will thus become less and less possible over time.

Third, a stronger inclusionary policy for downtown development on sites not under city control would be possible for consideration if real estate tax incentives and mixed use zoning that allowed more intensive use for housing were in place.

The question is really one of who pays to cover the cost of the below-market units. If it is the developer, it will not make a project more attractive or be considered a stimulus to greater housing production even if much of the cost can be passed on to the market rate occupants. While some locations may support substantial developer participation, public incentives will also be needed. The ways in which this is being done in Boston are increasingly diverse. They include reducing or delaying the impact of land, construction, financing and operating costs. As construction costs are less subject to manipulation, efforts by and large focus on the other three.

<u>Lower Land Costs:</u> though the writedown of publicly owned property at time of sale or long-term lease which could also include deferred payments during initial occupancy or until time of resale. Also, the City, through the urban renewal process if necessary, could assist with the assembly of parcels now only partially owned by the City for larger scale, more cost effective development. (This is particularly applicable at some locations in the South End).

Lower Construction Costs: Public assistance, in the past, has frequently come in the form of making a site ready for construction by demolishing buildings, undertaking land fill or air rights construction, bringing access or utilities to the site, providing off-site amenities such as parks, and in building on-site improvements such as sidewalks, internal streets and parking areas. Outside of the existing urban renewal areas, the capital program does not include or anticipate improvements of this type.[7] The direct lowering of construction costs is less subject to manipulation. Modular housing is one possible exception, although the use and cost savings of modular units on high density sites is questionable.

Lower Financing Costs: by lowering the size of a first mortgage or the mortgage interest rate through grants or long-term low interest or deferred loans from linkage payments (including on-site linkage payments for multi-use developments), other housing trust funds, UDAG pay-back monies, block grant funds, and funds from foundations and charitable insititutions. Also by reducing mortgage interest payments using tax exempt bond programs such as TELLER and SHARP. The BRA has also filed legislation amending Chapter 121B which would permit it to issue tax exempt revenue bonds to finance housing renewal areas amending Chapter 121B.

Lower Annual Operating Costs: during at least the initial years of occupancy through favorable real estate tax treatment, and through project design that minimizes utility, security and common area maintenance costs.

With assistance from the Shawmut Bank Public Financing Group, the impact of land, taxes, and financing costs was tested for proto-typical building constructed in downtown

Boston in which 25% of the units would be available at Section 8 rents (80%) of median and the rest at market rate. The example used is derived from an illustration prepared by the BRA research staff in June 1984 with costs increased to reflect current levels. Five financing alternatives were considered. Each assummes a 9% tax-exempt rate with a 30-year amortization schedule.

1. Co-insured only;
2. Co-insured with zero taxes on the subsidized units;
3. Co-insured with no land costs;
4. Co-insured with full SHARP subsidy on the subsidized units only;
5. Co-insured, SHARP, and no land costs.

Results (see illustrative pro forma) show that some combination of assistance will be necessary in order for the development to be feasible. Tax exempt financing alone is not enough. As the illustration also has market rents above what is likely to be achieved (almost $2,000 for a 1,000 s.f. apartment) some means will be needed to reduce those rents as well.

Within the downtown area considered in this report, the potential for additional below-market rate housing contruction is particularly strong in the South End, given the number of sites either partially or totally controlled by the City. Removal of the Orange Line from Washington Street in 1987 will eliminate a major environmental constraint. Within the adjoining blocks on either side of Washington Street from Berkley to Massachusetts Avenue there are more than 16 acres of land either vacant or with largely vacant buildings. At an average density of 40 units to the acre, more than 650 new units could be provided. Additional land will also be freed up in Chinatown when the elevated comes down. A planning study by the BRA of the Washington Street corridor is in the formative stage, but has not yet gotten

Illustrative Pro Forma

	Co-Insured Only	Co-Insured & Property tax Abatement	Co-Insured & Zero land cost scenario	Co-Insured & SHARP Subsidy	Co-Insured, SHARP & Zero land cost
Unit land cost/sq. ft. ...	295	295	0	295	0
Site Cost (20,000 sq.ft.) ...	5,900,000	5,900,000	0	5,900,000	0
Number of stories ...	30	30	30	30	30
Gross bldg area (sq.ft.) (Footprint=2/3 site) ...	400,000	400,000	400,000	400,000	400,000
Development cost/sq.ft. ...	105.00	105.00	105.00	105.00	105.00
Development cost ...	42,000,000	42,000,000	42,000,000	42,000,000	42,000,000
Development & site cost ...	47,900,000	47,900,000	42,000,000	47,900,000	42,000,000
Rentable bldg area (85% efficiency) ...	340,000	340,000	340,000	340,000	340,000
Cost/1,000 sq.ft. apt. ...	140,882	140,882	123,529	140,882	123,529
Borrowing Rate ...	9.000	9.000	9.000	9.000	9.000
Annual Debt Service (See notes below for desc.) ...	4,722,549	4,722,549	4,140,857	4,722,549	4,140,857
Market rent/1,000 sq.ft. (75% of rentable space) ...	2,012	2,012	2,012	2,012	2,012
Below-market rent/1,000 ft (25% of rentable space) ...	543	543	543	543	543
Annual SHARP subsidy ...	0	0	0	881,141	772,608
Avg. annual subsidy/1,000 ...	0	0	0	2,592	2,272
Annual gross rent ...	6,709,410	6,709,410	6,709,410	7,590,551	7,482,018
Annual Operating Expense (20% of maximum rent) ...	1,641,480	1,641,480	1,641,480	1,641,480	1,641,480
Annual property tax ($17/$1,000 of total value) ...	818,712	614,034	818,712	818,712	818,712
Net operating income ...	4,249,218	4,453,896	4,249,218	5,130,360	5,021,827
N.O.I./Total cost ...	8.87%	9.30%	10.12%	10.71%	11.96%
Net cashflow ...	(473,330)	(268,652)	108,361	407,811	880,970
Net cashflow/Total cost ...	-0.99%	-0.56%	0.26%	0.85%	2.10%
Net cashflow/equity ...	-9.882	-5.609	2.580	8.514	20.975

Notes: It is assumed in all cases that the developer contributes 10% equity to the project.

The borrowing rates shown are current market rates for a 20 year bond with a Aaa rating.

Operating expense includes vacancy losses.

Market rent represents 17% of the total cost/1,000 sq.ft. and disregards the effect of zero-land cost.

The property tax abatement shown in example 2 assumes an abatement on 25% of building only.

Source: Developed in cooperation with the Shawmut Bank of Boston Public Finance Group, based on BRA data (see footnote 6).

underway. Its timely completion could help facilitate mixed income housing development in this intown area of the City.

The Lowell Square Parcel in the West End Urban Renewal project is another opportunity for below-market units if the legal issues can be cleared up. The inclusion of below market units would also have some symbolic value given the history of displacement of low and moderate income households from the area by urban renewal.

While financial incentives may not be able to bring sales and rental prices down as much as in outlying neighborhoods, it should still be possible in many cases to achieve some reduction and serve a broader market. An across-the-board inclusionary policy of 10 to as much as 25% to provide for a full range of below-market housing could be considered <u>if</u> it were understood that the cost of meeting such an inclusionary policy would be born primarily by the public side. TELLER and SHARP, of course, have built in requirements of 20 and 25% respectively for moderate income households in order for tax exempt financing to be available. Other forms of subsidy could be targeted to achieve feasibility or provide housing for households at or above 80% median. Provision could be made in any policy developed for the below-market requirement to be waived if it were determined that needed public financial support was not available or for other reasons was inappropriate.

<u>Long Term Affordability</u>

Questions of affordability need to be considered for the long term as well as at the point of initial occupancy. A great deal of effort can go into providing units whose below-market life might be 15 years or less. There is no indication that the housing crisis is going to do anything but intensify over the next decade. The crisis will be as

strongly felt downtown as anywhere. The need is great for such measures as deed restrictions; recovering grants and loans used to reduce the cost of housing at the point of resale; and giving preference to such forms of ownership as limited equity cooperatives to avoid losing below-market units over the long term. This is likely to be more difficult to do for rental housing than for sales units. Since passage of the 1981 Tax Reform Act, the accelerated depreciation schedules for rental housing encourage early resale and conversion to condominiums.[7] A prohibition from conversion could, however, make the development so unattractive to investors that it could not be financed.

Footnotes

1 Boston Globe 10/14/85 "Wanted: 'Empty-Nesters' to live in Hub."

2 The increase in the City's young adults is analized in a BRA staff paper by Margaret C. O'Briens "The Migration of 24-34 Year Olds Into and Out of the City of Boston, 1970-1980" issued September 1983.

3 Residential area population figures for 1970 and 80 are based on census tracts aggregated as follows:

Back Bay	105-108
Beacon Hill	101,202
West End	203
North End/Waterfront	301,302,303 (83%),304,305
South End	703 (69%), 704-712
China Town	702
Central Business Area	701

4 Employment statistics for downtown are from the BRA report "Boston Employment, Citywide, Downtown, Downtown Office and Remaining Boston 1976-1984 and projections to 1990 and 1995" by Jeffery P. Brown and Gregory W. Perkins, April 1985. The definition of downtown used in their study includes the Back Bay and South End to Massachusetts Avenue but excludes the North End, West End/MGH area, and Fort Point Channel.

5 "Investing in Boston's Future - A Five Year Capital Plan", September 1985.

6 Based on discussion in Inclusionary Housing Programs: Policies and Practices by Alan Mullach, 1984, pg. 158.

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74